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This report contains recommendations for improvements in the management and operation of the Montana Promotion Bureau, including:

- ▶ Presentation of complete and more reliable information on the effectiveness of the travel promotion program and the actual impact of tourist expenditures on Montana's economy.
- ▶ Improvement of bureau research design and analysis.
- ▶ Development of ongoing research of travel/tourist markets.
- ▶ Preparation of formal planning documents for major marketing areas.
- ▶ Establishment of private funding controls and procedures.

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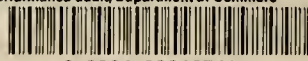
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September 1983

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The Legislative Audit Committee
of the Montana State Legislature:

This is our performance audit of the Montana Promotion Bureau of the Department of Commerce. This report contains recommendations for improvements in the management and operation of the Montana Promotion Bureau. The Department of Commerce response is contained beginning on page 31.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat
Deputy Legislative Auditor

Approved:

A handwritten signature in black ink, appearing to read "Robert R. Ringwood".

Robert R. Ringwood
Legislative Auditor

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Development Bureau Chief

Chapter I

INTRODUCTION

A performance audit of the Montana Promotion Bureau of the Department of Commerce was performed at the request of the Legislative Audit Committee. This report summarizes the results of the audit of the bureau's travel promotion and business promotion programs.

OBJECTIVES OF AUDIT

The objectives of the audit were to determine if the bureau was achieving its intended goals and objectives and managing its resources economically and efficiently. Bureau operations were also reviewed to determine compliance with applicable laws and regulations.

This audit report includes recommendations to department management including:

- improved conversion study data analysis;
- presentation of complete and more reliable information on the effectiveness of the travel promotion program and the actual impact of tourist expenditures on Montana's economy;
- development of ongoing research of travel/tourist markets;
- development of formal planning processes; and
- establishment of controls and procedures over the solicitation, collection, and handling of private funds.

During our audit we issued five interim audit communications (IACs) to Department of Commerce officials. Interim audit communications are written solicitations of responses from agency management for selected audit points. They address areas relating to report issues and recommendations, and are intended to inform the division of issues during the audit, rather than after audit completion.

MANAGEMENT MEMORANDA

In addition to the recommendations in this report, we also made recommendations in seven areas, using management memoranda. These areas are:

- Bureau Travel Activity: We suggested the bureau implement procedures so travel receipts and travel vouchers submitted by bureau staff are more completely and accurately recorded.
- Staff Project Reporting: We suggested bureau management receive project status reports. This could include: an initial memo describing project format and design, ongoing oral communication, an evaluation memo which describes weaknesses and strengths, and possible improvements for subsequent projects.
- Staff Performance Evaluations and Training: We suggested the bureau chief conduct at least annual job performance evaluations and provide staff training, as bureau funding becomes available and training needs are identified.
- Documentation of Advertising Agency Selection Process: We suggested the bureau develop procedures for documentation of the processes and procedures it follows in selecting an advertising agency.
- Quality Control Procedures: We suggested the bureau develop written quality control procedures and the procedures be reviewed and revised periodically. These procedures will provide assurance bureau publications and brochures are of a reasonable level of quality.
- Data Processing System Application: We suggested the bureau use the statistical software application on the central computer system for conversion study data analysis and rely on personnel familiar with survey research, statistical methods, and computer applications.
- Coordination Between Business Promotion and Business Assistance: We suggested the division develop procedures for the coordination of business promotion and business assistance programs.

SCOPE OF AUDIT

The audit focused on the effectiveness and efficiency of bureau travel promotion and business promotion programs. It did not include a review of the financial status of the bureau. The

audit was conducted in accordance with generally accepted governmental performance auditing standards. We examined and observed bureau policies, procedures, management reports, and operating statistics from 1979 to the present. We attended a meeting of the state tourism advisory council and contacted travel offices in several states to discuss travel/tourist related issues and collect background information.

We found the bureau in general compliance with applicable laws and regulations related to division operations. For those rules and regulations not related to effectiveness or efficiency and, therefore, not tested for compliance, nothing came to our attention during the audit that indicated significant agency noncompliance.

ORGANIZATION OF REPORT

This report is presented in four chapters. Chapter I presents an introduction to the report and summarizes the objectives and scope of the audit.

Chapter II presents background information on the operations of the Montana Promotion Bureau. Information on travel promotion activity in other states is also presented.

Chapter III discusses the organization of promotional programs and activities within the Montana Promotion Bureau.

Chapter IV examines the impact of travel promotion and includes recommendations to improve bureau research efforts. Information on private funding of bureau promotion activities and a recommendation concerning the development of private funding controls and procedures are also included.

Chapter II

BACKGROUND

HISTORY OF TRAVEL PROMOTION

The involvement of Montana state government in travel promotion began in 1947 with the creation of the "Advertising Unit" under the Highway Commission. The Advertising Unit was authorized to expend \$50,000 each year of the 1949 biennium to "publicize the resources and amenities of the state." From 1947 until 1975, the Advertising Unit provided "public information on the highways and attractions of Montana."

In 1975, the Advertising Unit became the Travel Promotion Unit within the Department of Highways, with increased responsibility to promote Montana as a site for the production of motion pictures and television commercials. The Travel Promotion Unit was changed to the Travel Promotion Bureau within the Department of Highways in 1979.

The Department of Commerce was created by Senate Bill 432 during the 1981 Legislature. Travel promotion was transferred to the Department of Commerce in fiscal year 1981-82 and became the Montana Promotion Bureau of the Division of Economic and Community Development with expanded responsibility to promote Montana as a business location site.

In 1982, a tourism advisory council was created by executive order. The 15 member council represents a variety of geographic regions and travel groups, and provides advice on travel marketing, funding sources, private/public sector cooperative advertising programs, and related travel/tourism issues.

As a result of the passage of "Build Montana" economic development programs by the 1983 Legislature, the Montana Promotion Bureau will also have the responsibility to promote Montana products.

FUNDING

From 1947 to 1981, travel promotion programs were funded by gasoline tax revenues. Since transfer to the Department of Commerce in 1981 travel promotion programs have been financed mainly through general fund appropriations. In addition to general fund appropriations, the bureau has the authority to spend private sector funds up to a level established by the Legislature. For fiscal year 1981-82 private sector contributions totalled approximately \$90,000 and in fiscal year 1982-83 about \$150,000 was collected from private sources. Private sector funds are used to develop several bureau publications such as the 1983 Montana Accommodations Guide and an Alpine and Nordic Ski Guide.

Appropriations to operate the promotion programs remained relatively constant over the last ten years (see Illustration 1). However, in terms of actual "buying power" the operations budget decreased from \$710,900 in 1973 to \$450,372 in 1983. For fiscal years 1983-84 and 1984-85 the appropriations are increased to reflect the promotion programs associated with "Build Montana." The appropriations are \$1,969,000 and \$2,000,000, respectively.

Budget appropriations for promotion programs, both unadjusted and adjusted to constant dollars to account for inflation, for fiscal year 1973-74 to fiscal year 1982-83 are presented in Illustration 1.

PROMOTION APPROPRIATIONS

(Fiscal Year 1973-74 through Fiscal Year 1982-83)

<u>Fiscal Year</u>	<u>Current Dollars</u>	<u>Constant Dollars</u> ¹
1973-74	\$750,000	\$710,900
1974-75	750,000	641,574
1975-76	654,830	517,652
1976-77	650,915	494,241
1977-78	634,431	455,442
1978-79	637,031	427,251
1979-80	600,000	369,231
1980-81	600,000	334,821
1981-82	700,000	359,897
1982-83	927,767	450,372

¹ Constant 1972 Dollars to Account for Inflation

Source: Compiled by the Office of the Legislative Auditor

Illustration 1

OTHER STATES

Forty-eight states have some governmental agency responsible for travel development and promotion. The other two states have similar travel development and promotion programs which are administered by private non-profit organizations.

Illustration 2 presents a summary of travel promotion programs in other states.

OTHER STATES TRAVEL PROMOTION
Fiscal Year 1982-83

<u>Characteristic</u>	<u>Number of State Travel Offices Having Characteristic</u>	<u>Montana</u>
Majority of Funding from General Fund	40	Yes
Use Surveys to Measure Advertising Effectiveness	46	Yes
Has Travel Research Staff	33	No
Travel Office has own Advertising Staff	49	Yes
Use Private Advertising Agency	45	Yes
Has Cooperative Advertising Programs	44	Yes
Advertising at Least Partially Directed Toward Stimulating Inquiries	47	Yes
Travel Office Advertises in:		
Magazines	33	Yes
Newspapers	27	Yes
Radio	22	Yes
Television	19	No *
Conduct Press or Travel Writer Tours	41	Yes
Have Package Tour Program	47	Yes
Conduct Familiarization Tours for Tour Operators and Travel Agents	45	Yes

* The bureau uses free television public service announcements in one advertising campaign.

Source: United States Travel Data Center

Illustration 2

Chapter III

MONTANA PROMOTION BUREAU

BACKGROUND

The Montana Promotion Bureau is responsible for promoting Montana as a vacation destination and as a location for the production of motion pictures and television commercials. In addition, the bureau promotes Montana as a location for the development of new businesses.

The bureau employs nine FTE. Five employees administer the consumer travel promotion program which includes most of the bureau's national advertising, group travel promotion, publications and publicity, motion picture and television commercial promotion, and the business promotion program. The bureau also has an accountant and three clerical staff.

Illustration 3 shows bureau expenditures for fiscal year 1982-83.

MONTANA PROMOTION BUREAU EXPENDITURES Fiscal Year 1982-83

Personal Services	\$209,669
Operating Expenses	714,446
Equipment	3,748
Total Expenditures	<u>\$927,863</u>

Source: Statewide Budgeting and Accounting System

Illustration 3

TRAVEL PROMOTION PROGRAM

The bureau has initiated a program of advertising, promotion, and publicity which is aimed at increasing awareness of Montana as a vacation destination and as a suitable location for movie and

television commercial production. Activities include providing special interest and general information advertising in consumer and travel trade magazines, advertising using billboards and radio, publication of brochures as follow-ups to advertising, tours familiarizing travel agents and travel writers with Montana, articles and press releases about Montana travel and tourist activities, and exhibiting at various travel shows and conventions.

The primary activity of the bureau is national advertising in newspapers and magazines, and sending printed material in response to inquiries for information. For example, the bureau is involved in a cooperative advertising program with the state travel office in Wyoming and with the national parks in both states. This program consists of advertising in national magazines to influence individuals to contact the travel office for vacation planning information.

The number of inquiries since 1981 is shown in Illustration 4.

ADVERTISING INQUIRIES
1981-83

<u>Calendar Year</u>	<u>Montana/Wyoming Cooperative Inquiries</u>	<u>Other Inquiries</u> *	<u>Total Inquiries</u>
1981	--	69,590	69,590
1982	59,521	66,526	126,047
1983	84,839	81,564	166,403

* Inquiries from other bureau advertising projects including both requestors, friends and relatives as part of the Invite-a-Friend campaign.

Source: Montana Promotion Bureau

Illustration 4

Printed material consists of brochures and publications which provide specific information about Montana attractions, events, and facilities to potential visitors. The bureau has contracted with a private firm for the packaging of printed material. The bureau was involved in the production of five advertising publications as part of the Montana/Wyoming Cooperative Advertising Program in fiscal year 1982-83 as shown in Illustration 5. Both bureau and private funds were used to cover the cost of production and printing of the publications.

MONTANA PROMOTION BUREAU PUBLICATIONS
MONTANA/WYOMING COOPERATIVE ADVERTISING PROGRAM
 Fiscal Year 1982-83

<u>Publications</u>	<u>Publications Printed</u>
Montana Vacation and Information Guide	250,000
Montana Accommodations Guide	250,000
Montana Recreation Map	240,000
Montana Bibliography	140,000
Montana Highway Map	1,500,000

Source: Montana Promotion Bureau

Illustration 5

We were unable to determine the bureau's preparation, production and printing costs per advertising publication from bureau records.

Advertising Processes

The bureau staff selects that combination of media they believe will reach the targeted markets based on market research information and judgmental factors. Bureau staff then work with a private

advertising agency in the planning and production of various ads which will be in the magazines and the other media. If the advertising is directed at attracting inquiries, the bureau will include on the advertisement how the individual can get more Montana vacation planning information by either calling a toll-free number or writing. Individuals requesting more information are sent a packet which includes a vacation planning guide, an accommodations guide, recreation and highway maps, and the Montana bibliography which lists sources of additional information on Montana. In addition, the bureau occasionally sends other printed material to individuals requesting specific information about an attraction or event.

Market Study

In 1980, the bureau used private industry funds to finance a travel marketing study which provided the bureau with tourist market information and market planning recommendations. The market study identified Montana's prime tourist market and the perceptions of potential tourists in that market area. The study identified Montana's prime tourist market as three western Canadian provinces and most states west of the Mississippi River.

The study noted climate, travel distance, limited vacation experiences, and the poor condition of tourist facilities as major reasons for not vacationing in Montana.

The bureau requested further definitions of those markets the bureau should be targeting for advertising. The study group identified segments of potential markets which possess similar interests in vacation activities. These segments are called vertical markets. Five vertical markets were noted. These include: 1) young, active, outdoor adventure seekers; 2) families wanting a

family vacation experience; 3) families involved in winter sports; 4) sightseers interested in western life and history; and 5) recreational vehicle campers.

As a result of this information, the bureau altered its travel promotion program to direct advertising at the vertical markets. The study group also suggested the bureau develop a program to reach friends and relatives of Montanans. In response, the bureau improved its Invite-a-Friend campaign.

Implementation of the study recommendations has resulted in an increased number of inquiries. In addition, the bureau has reduced its general fund advertising costs by using cooperative advertising programs with private industry groups and has used the savings to improve the quality of ads and publications over the last two years.

Program Areas

The travel promotion program is organized into three promotional areas including consumer travel, group travel, and motion picture and television commercials.

Consumer Travel

The objective of the consumer travel effort is to promote Montana as a vacation destination to a targeted nonresident consumer market. The program is broken down into summer and winter advertising, using a variety of promotion methods including advertising in magazines, use of radio and billboards, promotional brochures, publicity, and exhibits. Over 50 percent of the consumer travel budget is used for national advertising and cost of postage for sending printed material to individuals requesting bureau vacation planning information.

Group Travel

The objective of the group travel program is to promote Montana as a vacation destination with the travel trade industry which includes tour wholesalers, brokers, operators and travel agents. The bureau has developed a direct, personalized approach which includes conducting familiarization tours of Montana with travel trade individuals and making contacts with travel trade groups at various travel trade conventions. The bureau staff member assigned to group travel attends conventions staged by the National Tour Association, American Bus Association, and the Travel Industry Association of America. A group tour resource manual has been published by the bureau which provides preliminary information to the travel industry on group tour activity in Montana. In fiscal year 1982-83, bureau personnel conducted two familiarization trips and attended four travel trade conventions.

Motion Pictures and Television Commercials

The Motion Picture and Television Commercial program promotes Montana to members of the motion picture industry. Bureau staff assigned to this program provide location assistance to motion picture industry personnel and take photos of scenery, state attractions, and events for use in bureau brochures and publicity releases. Location services include direct location searching and scouting, talent searches, assistance with transportation and accommodations and related services. A Motion Picture and Television Location Manual, published by the bureau, is used to provide general location information on some Montana sites.

In calendar year 1982 the production of 3 films, 14 television commercials, and 7 television series and documentaries generated \$1,000,000 in local revenues for Montana. The revenue estimates from the production of films and commercials in Montana come directly from the producers.

BUSINESS PROMOTION PROGRAM

The Montana Promotion Bureau has operated a modest business promotion program since fiscal year 1981-82. The objective of the program is to promote Montana as a business and industrial location site and to provide a professional response to firms or individuals who may be interested in Montana. The bureau published a Business and Industrial Location Guide which provides general location information. Firms or individuals requesting more detailed information are referred to local development corporations. At the time of the audit, there was no business promotion advertising directed at developing interest in Montana as a business location site.

The business promotion budget for fiscal year 1982-83 is presented in Illustration 6.

BUSINESS LOCATION PROMOTION EXPENDITURES Fiscal Year 1982-83

Operating Expenses	
Personal Services	\$35,451
Contracted Services	8,822
Communications	256
Rent	2,787
Other Expenses	7,449
Equipment	1,442
Total	<u>\$56,207</u>

Source: Statewide Budgeting and Accounting System

Illustration 6

In the past there has not been a strong statewide effort to attract new businesses to Montana, nor has there been a systematic approach to providing technical assistance to new businesses interested in locating in Montana. The Department of Commerce is in the process of making changes in the structure of the department as a result of the implementation of "Build Montana" programs. Part of these changes will involve increasing the role and responsibilities of business promotion and business assistance in the development of new businesses.

Chapter IV

IMPACT OF TRAVEL PROMOTION

State travel promotion offices exist because it is presumed that their programs result in people coming to the state who would not visit otherwise, and that these travelers/tourists significantly boost the state economy. Travel promotion offices tend to measure the effectiveness of travel promotion programs by the number of travelers/tourists brought into the state and, more importantly, by the fiscal impact of traveler/tourist spending.

EFFECTIVENESS OF BUREAU TRAVEL PROMOTION PROGRAMS

To adequately determine the effectiveness of Montana's promotion programs, a cause-effect relationship between promotion and traveler/tourist activity has to be established. In attempting to measure this effectiveness, we developed the following issues.

- Current sources of available information are inadequate to help make a determination of the effectiveness of the state's travel promotion efforts.
- Current in-house bureau research design and analysis is inadequate.

Because of these issues, we conducted our own study of the bureau's 1982 Montana/Wyoming Cooperative advertising program to determine the bureau's effectiveness in this program and to compare our results to bureau reported results. The following sections discuss the bureau's information sources, research activity, and use of information.

Information Sources

In the case of Montana's promotional efforts there have been no studies conducted nor is there any mechanism established to determine the effect on tourism of the state's promotion efforts. Sources of information on number of visitors to Montana and the amount of money spent in Montana are sparse and vary in their reliability.

Tourism is considered part of the larger travel industry which includes both tourist and nontourist travel activity. Tourism includes all pleasure travel. Little research on the economic impact of tourism in Montana exists. The most recent travel study was completed by a private firm contracting with the department in 1980. This study estimated the impact of traveler/tourist spending in Montana during 1979. The study reported that 3.5 million visitors came to Montana in 1979 resulting in about \$486 million in non-resident traveler/tourist expenditures. The total expenditure of \$486 million represents about \$86.2 million in direct income to Montana. The remainder of the \$486 million, which is not direct income, goes out of state for the purchase of goods and services used to support nonresident traveler/tourist activity in the state.

Some traveler/tourist count information is available. However, counts provided by the national parks, the Montana Department of Highways, and the Department of Fish, Wildlife and Parks merely indicate the number of vehicles traveling over a section of road or the number of users of facilities. The number of travelers or users is affected by a variety of factors: gasoline prices, general economic conditions, weather conditions, the age of the traveling population, public events, how the numbers are collected, etc.

Since there has been no research to verify the cause-effect relationship, we could not use traveler/tourist counts to say that tourism activity has increased or decreased due to promotion activity.

For example, an indication of the changing traveler patterns can be seen in Illustration 7. This illustration indicates the number of visitors to Yellowstone Park and Glacier Park from 1972 to 1982.

NATIONAL PARK VISITATION
YELLOWSTONE PARK AND GLACIER PARK
1972-82

<u>Year</u>	<u>Yellowstone Visitors</u>	<u>Glacier Visitors</u>
1972	2,246,827	1,392,145
1973	2,061,537	1,398,958
1974	1,937,768	1,406,643
1975	2,246,132	1,571,393
1976	2,525,174	1,662,678
1977	2,487,084	1,656,212
1978	2,623,141	1,601,131
1979	1,891,917	1,446,236
1980	2,009,581	1,475,538
1981	2,544,242	1,786,843
1982	2,404,862	1,666,431

Source: Yellowstone Park Service and Glacier Park Service

Illustration 7

During this period the involvement of Montana tourism promotion ranged from providing public information on highways and attractions in Montana to targeting the tourism market and running advertising campaigns. There is no research which indicates the state's travel promotion effort had any effect on travel patterns or that particular bureau promotion programs resulted in increased tourist activity in Montana.

There are information sources available to the bureau to measure its effectiveness. Some states use "welcome centers" at the main entrances to their states to provide traveler information and to measure their travel promotion efforts. Most states use surveys to gauge their promotional efforts. Montana's efforts in this area have been minimal. These surveys identify and provide information on individuals who decide, based on state's promotional efforts, to vacation in the state.

Since 1980, the bureau has conducted conversion studies on two advertising projects. These studies consist of selecting a sample of individuals who have requested Montana vacation information. The sample members are sent postcard questionnaires which contain traveler/tourist questions. The bureau analyzes the responses in order to measure the effectiveness of advertising buys. Bureau study results are also used to estimate revenue returned per advertising dollar spent for advertising media used in a particular campaign. However, these results are only an indication of the effectiveness of a particular advertising project, not of the bureau's entire advertising effort. In addition, the bureau has never conducted conversion studies of other promotional programs it has implemented in response to the 1980 market study.

Bureau Research Activity

We reviewed the bureau's activities in conducting and analyzing its two conversion studies to determine the effectiveness of their efforts and the reasonableness of analysis. We found the bureau did not use the studies to their best potential nor did it analyze results properly.

During the audit we could find no record of the sampling methodology used in the conversion studies. However, at the completion of the audit the bureau provided a conversion study sampling methodology. The methodology did not include an explanation of how sample sizes were determined or what confidence intervals were attached to point estimates, and there was no discussion of how nonrespondents were to be sampled or how results were to be analyzed. Without this methodology it is impossible to determine the validity of the sample and whether the study results are reliable.

The questionnaire used in the bureau's recent conversion study does not identify respondents who decided to vacation in Montana prior to receiving bureau vacation planning information. Bureau analysis of the results assumed that all respondents that decided to vacation in Montana were persuaded by bureau advertising and vacation planning information. Our study results indicate that only about 12 percent of all respondents decided on a Montana vacation after reading bureau vacation planning information.

The bureau's study also assumed questionnaire nonrespondents traveled to Montana at the same rate as respondents. The bureau did not sample from nonrespondents. (Nonrespondents are those individuals that did not respond to either the first or second mailing of the questionnaire.) We contacted ten percent of the individuals who did not respond to our questionnaire to determine if their responses differed significantly from the respondent group. We found only seven percent of the nonrespondents we contacted

vacationed in Montana in 1982. This figure differs significantly from the percentage visiting Montana from the respondent group (32 percent).

Bureau assumptions, that all respondents that vacationed in Montana were persuaded by bureau vacation planning information and that questionnaire nonrespondents travelled to Montana at the same rate as respondents, overstate the effectiveness of bureau advertising and vacation planning information.

In addition, the bureau believes that its promotional efforts have an effect on the length of stay of tourists in the state. For example, the bureau assumes that some individuals will lengthen their stay in Montana after reading bureau vacation information. From our study, we found no significant difference in the length of stay in the state between respondents who received bureau vacation planning information in time to plan the vacation and those who did not. We also noted the length of stay did not increase for respondents who decided to vacation in Montana after reading bureau vacation planning information as shown in Illustration 8. The average length of stay was about five days.

LENGTH OF STAY IN MONTANA

<u>Length of Stay</u>	<u>Respondents Decided on Montana Vacation Prior to Receiving Bureau Planning Information</u>	<u>Respondents Decided on Montana Vacation after Receiving Bureau Planning Information</u>
5 days or less	48%	57%
More than 5 days	52%	43%

Source: Compiled by the Office of the Legislative Auditor

Illustration 8

Bureau results from the 1982 conversion study also indicated the advertising project returned about \$130 of tourist expenditures for each \$1 of advertising program cost. However, we noted that the \$130 return is significantly overstated. Besides assuming that all respondents were converted, the bureau did not include all relevant costs in its calculations.

As a comparison, we analyzed the same conversion study using costs and expenditures we believed appropriate. We also adjusted bureau percentages based upon the results of our own study. For example, we estimate that less than 25 percent, or 14,564 of the respondents to the 1982 cooperative program actually vacationed in Montana in 1982. We also believe bureau advertising affected the decision to vacation in Montana of only 38 percent of the 14,564, or about 5,500 of the respondents that vacationed in Montana in 1982. We also adjusted tourist expenditures (\$7.7 million) to include only the income remaining in Montana. In 1980, a private research group estimated that only about 18 percent of nonresident travel expenditures was incremental income to Montana as a result of travel and tourism. In addition, we calculated the revenue returned per advertising dollar using all relevant advertising costs.

Illustration 9 presents the bureau's calculations compared with our calculations.

COMPARISON OF CONVERSION STUDY RESULTS
1982 MONTANA/WYOMING COOPERATIVE ADVERTISING PROGRAM

	<u>Bureau</u>	<u>OLA</u>
Total Inquiries	59,059	59,059
Percent of Inquiries Traveled in Montana	35.09%	24.66% ^a
Arrivals	20,726	14,564
Percent that Decided After Receiving Bureau Information	not calculated by the bureau	38%
Number of Arrivals that Decided After Receiving Bureau Information	not calculated by the bureau	5,534
Per Party Expenditures	\$370 ^b	\$370 ^b
Total Expenditures	\$7,668,853	\$2,047,580 ^c
Incremental Income Remaining in Montana	not calculated by the bureau	\$363,445 ^d
Total Advertising Costs	\$58,937 ^e	\$80,816 ^f
Revenue Per Advertising Dollar	\$130.12	\$4.50

^a Percent of inquiries adjusted based on survey results of non-respondents.

^b Reported by the bureau, as an average expenditure per travel party per trip.

^c Calculated by multiplying the number of arrivals that decided after receiving bureau information by the \$370 per party expenditure figure.

^d Incremental income remaining in Montana using conversion factor of .1775 cited in the 1980 Economic Impact Study for the conversion of nonresident traveler/tourist expenditures to the income remaining in Montana. The bureau suggested a multiplier of 1.84 could be applied to this figure to reflect the impact of traveler/tourist spending in Montana's economy. The multiplier was not used.

^e Includes only ad costs.

^f Total ad costs include our estimates of material, administrative and overhead costs.

Source: Compiled by the Office of the Legislative Auditor

This comparison indicates a difference of analysis and resulting difference in effectiveness. Our analysis demonstrates that the bureau is not as cost-effective on this program as it has reported. However, it is still returning about \$5 per advertising dollar. We could not determine project printing and materials costs which should also have been included in the analysis. When these costs are included, the return is even smaller.

We believe the bureau should reexamine its study methodology so that the studies will provide the information necessary to make reasonable and informed decisions on future advertising efforts. The bureau should document the sampling methodology used in the conversion study. In addition, the bureau should include all costs when calculating the amount of tourist expenditures returned for each dollar of advertising. The bureau should also use an estimate of the income remaining in Montana based on that portion of traveler/tourist expenditures identified as incremental income.

RECOMMENDATION #1

WE RECOMMEND THE BUREAU:

- A. REVISE CONVERSION STUDY METHODOLOGY SO STUDIES PROVIDE THE INFORMATION NECESSARY TO MAKE REASONABLE AND MORE INFORMED DECISIONS ON FUTURE ADVERTISING EFFORTS.
- B. DOCUMENT THE SAMPLING METHODOLOGY USED IN THE STUDIES.

C. INCLUDE TOTAL COSTS WHEN CALCULATING THE AMOUNT OF TOURIST EXPENDITURES RETURNED FOR EACH DOLLAR OF ADVERTISING.

D. USE AN ESTIMATE OF THE INCOME REMAINING IN MONTANA TO ESTIMATE THE IMPACT OF TRAVEL EXPENDITURES.

Bureau Use of Information

In reviewing what information is available and the bureau's use of that information, we found the bureau could improve its presentation and analysis. For example, the bureau has described travel activity in Montana as a \$1 billion industry. The estimate includes \$400 million of resident traveler/tourist expenditures and \$600 million of nonresident traveler/tourist expenditures. However, nonresident expenditures were estimated at closer to \$480 million by the 1980 impact study, not \$600 million. In addition, the actual income to Montana's travel industry is only \$172 million; \$86 million of this coming from nonresident spending. The tourism (pleasure travel) portion of the \$86 million is about \$45 million. The difference between total traveler/tourist expenditures and the \$172 million in actual income, goes out of state in the form of purchases of supplies, materials, fuel, other goods, and services.

The bureau also reported to the Tourism Advisory Council that bureau advertising projects return an estimated level of tourist expenditures for each dollar of advertising costs. However, due to the bureau's research design, these estimates have overstated the effectiveness of bureau promotional programs.

In addition, a bureau in-house market plan summary shows more than 18,500 relatives and friends of Montanans received a personal letter and vacation planning packet as part of the 1982 Invite-a-Friend campaign. However, of this 18,500 figure, more than 5,000 were Montanans who submitted names of friends and relatives. The bureau also noted a conversion rate of 59 percent for this campaign. During the audit, we did not find conversion study results to support this statement.

In regard to the bureau's overall presentation of traveler/tourist information, we recommend the bureau present more reliable information on the effectiveness of its programs and the actual impact on Montana's economy. Incomplete information or unsupported analysis makes it impossible for the bureau or others to accurately measure the effectiveness of its promotion programs.

RECOMMENDATION #2

WE RECOMMEND THE BUREAU PRESENT COMPLETE AND MORE RELIABLE INFORMATION ON THE EFFECTIVENESS OF ITS PROGRAMS AND THE ACTUAL IMPACT OF TOURIST EXPENDITURES ON MONTANA'S ECONOMY.

ONGOING MARKET RESEARCH

The 1980 market study provided information on Montana's traveler/tourist markets. Traveler/tourist markets and traveler/tourist perceptions change over time. Ongoing identification of these markets and perceptions is necessary in order to accurately target bureau marketing efforts. Without this information, the

bureau is promoting Montana based on outdated market information. The bureau does not have an in-house research group nor has it identified its traveler/tourist market information needs.

The bureau is planning a follow-up study of those groups surveyed as part of the 1980 market study sometime within the next two years. Periodic information is beneficial; however, the bureau should collect ongoing market information on travelers/tourists. The department is currently establishing a data analysis center which the bureau could use.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT DEVELOP A RESEARCH FUNCTION TO CONDUCT ONGOING RESEARCH OF TRAVELER/TOURIST MARKETS.

BUREAU PLANNING PROCESSES

The 1980 market study is the bureau's overall travel promotion planning document. While this study identifies the general direction the bureau should be taking in various marketing areas, it does not provide formal ongoing planning for these areas. Ongoing formal planning is not emphasized by the bureau administrator.

During our review we found that the bureau does very little formal project planning. For example, the bureau's lack of planning resulted in the bureau not being prepared to handle increased requests for Montana vacation information that resulted from an advertising program. The bureau was forced to rely on personnel

and equipment from other state agencies to process the requests on an emergency basis.

Besides using ongoing planning to manage bureau programs, it can be used to control overall bureau direction. Without ongoing planning, promotion campaigns may deviate from bureau goals and objectives. For example, the bureau attends travel conventions in other countries to promote Montana, even though the bureau does not have an international travel promotion plan. In addition, some bureau activities in international markets conflict with recommendations made in the 1980 marketing study which suggested the bureau concentrate on specific segments of the Canadian market and European travelers interested in "Old West" vacations.

To properly manage the overall direction of the bureau's programs, we believe the bureau should prepare formal planning documents for major marketing areas and for specific projects.

RECOMMENDATION #4

WE RECOMMEND THE BUREAU PREPARE FORMAL PLANNING DOCUMENTS IN MAJOR MARKET AREAS AND FOR SPECIFIC PROJECTS.

PRIVATE FUNDING CONTROLS/PROCEDURES

The bureau has the authority to spend private funds up to an amount specified by the Legislature. The bureau can spend up to \$700,000 in fiscal year 1983-84 and another \$700,000 in fiscal year 1984-85. There are no written procedures for the solicitation, collection, and handling of private funds.

The bureau mail system is separate from the Department's Centralized Services Division. The bureau secretary opens the mail and does not log in private funding checks nor does the secretary restrictively endorse the checks. The checks are handled by three individuals before they are endorsed by Centralized Services personnel. The bureau chief, who solicits the private funds, also receives unendorsed checks.

Private funding checks are brought from the bureau to Department Centralized Services, where they are restrictively endorsed and a collection report is prepared. Without controls and procedures for the handling of private funds, there is potential for mishandling.

We also noted that there is not an accounting of where private funds collected by the bureau are expended. Funds submitted by various private groups are not directly accounted for in specific bureau advertising programs. For example, funds submitted by private groups are assigned to various bureau publications. The funds are not directly accounted for by area of use, such as, printing or postage costs associated with the production and distribution of the publication, or administration costs. At the completion of the audit, the bureau administrator established SBAS (Statewide Budgeting and Accounting System) responsibility centers to account for private funds.

To improve the handling of private funds and to provide private parties with an explanation of how their funds are expended, we suggest the bureau develop procedures and controls for the solicitation, collection, and handling of private funds.

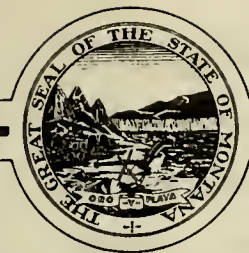
RECOMMENDATION #5

WE RECOMMEND THE BUREAU:

- A. IMPLEMENT PROCEDURES FOR THE SOLICITATION, COLLECTION, AND HANDLING OF PRIVATE FUNDS AND ESTABLISH CONTROLS ON THE HANDLING OF PRIVATE FUNDS.
- B. ANNUALLY PREPARE A REPORT THAT ACCOUNTS FOR PRIVATE FUNDING INCOME AND IN WHAT BUREAU ADVERTISING PROGRAMS FUNDS WERE EXPENDED.

AGENCY RESPONSE

DEPARTMENT OF COMMERCE



TED SCHWINDEN, GOVERNOR

1424 9TH AVENUE
CAPITOL STATION

STATE OF MONTANA

RECEIVED

HELENA, MONTANA 59620

SEP 13 1983

AGENCY RESPONSE

MONTANA LEGISLATIVE AUDITOR

The Department and the Montana Promotion Division management find the recommendations of the performance audit and their accompanying text to be most helpful. We appreciate the audit's observation that with decreased inflation adjusted funding the bureau has increased its total advertising inquiries from 69,590 in 1981 to 166,403 in 1983, and the audit's statement that "the bureau has reduced its general fund advertising costs by using cooperative advertising programs with private industry groups and has used the savings to improve the quality of ads and publications over the last two years."

The following are responses to each recommendation in the audit report:

RECOMMENDATION #1

- A. REVISE CONVERSION STUDY METHODOLOGY SO STUDIES PROVIDE THE INFORMATION NECESSARY TO MAKE REASONABLE AND MORE INFORMED DECISIONS ON FUTURE ADVERTISING EFFORTS.
- B. DOCUMENT THE SAMPLING METHODOLOGY USED IN THE STUDIES.
- C. INCLUDE TOTAL COSTS WHEN CALCULATING THE AMOUNT OF TOURIST EXPENDITURES RETURNED FOR EACH DOLLAR OF ADVERTISING.
- D. USE AN ESTIMATE OF THE INCOME REMAINING IN MONTANA TO ESTIMATE THE IMPACT OF TRAVEL EXPENDITURES.

Response to Recommendation #1

- A. Conditionally concur.

Clearly it behooves the Montana Promotion Division to have detailed and accurate research information to base future advertising decisions upon. The audit demonstrates ways for the bureau to modify its conversion study research to improve its usefulness. Some elements of the audit's comparative analysis can and will be incorporated into the Division's future conversion studies.

Our conditional concurrence is based upon our inability to determine how the auditing staff reached their conclusion. We are confident that by sitting down with the audit staff and working through the various research methods available, we will be able to improve upon both the research methods of the Bureau and the Legislative Auditor. We desire to do so.

The advertising campaign that the Auditor chose to do a comparative conversion study on is entitled the "Montana & Wyoming Cooperative Campaign." In addition to \$80,000 from the State of Wyoming, the concessionaires from Glacier, Yellowstone and Grand Teton National Parks contributed \$50,000 to the campaign. These private sector corporations were pleased with the results of the campaign and have committed \$50,000 for a similar campaign in 1984. It is clear that their decision is not a capricious one.

B. We concur.

C. We concur.

D. We conditionally concur.

In addition to including an estimate of the income remaining in Montana a multiplier effect should be calculated on direct income to give a fuller representation of the value of a particular campaign.

Implementation of Recommendation #1

State of the art conversion study research methodologies will be investigated. This information, together with appropriate portions of the comparative

conversion study analysis completed by the Office of the Legislative Auditor, will be incorporated into a revised methodology. This methodology will be applied to Montana's 1983 vertical advertising program and the Invite-a-Friend program.

Revised methodology will be developed by February 1, 1984. The actual conversion study will be completed by May 1, 1984.

John Wilson, Division Administrator, will be responsible for implementation.

RECOMMENDATION #2

WE RECOMMEND THE BUREAU PRESENT COMPLETE AND MORE RELIABLE INFORMATION OF THE EFFECTIVENESS OF ITS PROGRAMS AND THE ACTUAL IMPACT OF TOURIST EXPENDITURES ON MONTANA'S ECONOMY.

We concur.

With increased financial resources resulting from the increased appropriations, the Division is now better able to fund additional and more complete research projects.

Implementation of Recommendation #2

The Division will compare costs and reliability of contract consultants and in-house research staff to complete an updated "Economic Impact of Tourism in Montana." The most cost effective, reliable and timely option will be selected and the updated study will be completed by April 1984.

John Wilson, Division Administrator, will be responsible for implementation.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT DEVELOP A RESEARCH FUNCTION TO CONDUCT ONGOING RESEARCH OF TRAVELER/TOURIST MARKETS.

We concur.

As indicated on page 27 of the audit, the Bureau is planning follow-up market research. The audit staff recommends annual or ongoing market research. With increased financial resources, the Division welcomes this recommendation and the ability to comply.

Implementation of Recommendation #3

The Department will assess its in-house ability to complete ongoing research of traveler/tourist markets. The Department will also assess available contracted services to do the same. Cost comparisons will be made. Annual traveler/tourist market research studies will be completed beginning April 1984.

John Wilson, Division Administrator, will be responsible for implementation.

RECOMMENDATION #4

WE RECOMMEND THE BUREAU PREPARE FORMAL PLANNING DOCUMENTS IN MAJOR MARKET AREAS AND FOR SPECIFIC PROJECTS.

We concur.

Implementation of Recommendation #4

Formal planning documents will be created for major markets and specific projects (where the size and magnitude of the project warrants) by January 1, 1984.

John Wilson, Division Administrator, will be responsible for implementation.

RECOMMENDATION #5

WE RECOMMEND THE BUREAU:

- A. IMPLEMENT PROCEDURES FOR THE SOLICITATION, COLLECTION, AND HANDLING OF PRIVATE FUNDS AND ESTABLISH CONTROLS ON THE HANDLING OF PRIVATE FUNDS.

B. ANNUALLY PREPARE A REPORT THAT ACCOUNTS FOR PRIVATE FUNDING INCOME,
AND IN WHAT BUREAU ADVERTISING PROGRAMS FUNDS WERE EXPENDED.

We concur.

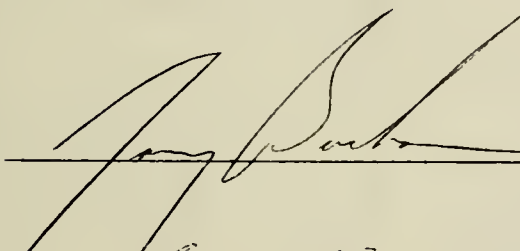
The Tourism Advisory Council approved guidelines for solicitation of private funds on 8/31/83.

Controls for collection and handling of private funds have been implemented.

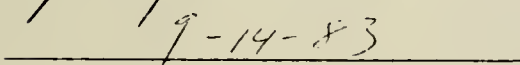
Statewide Budget and Accounting System responsibility centers have been established for accounting for both income and expenditure of private funds on a project by project basis. We believe it is the intent of the Auditor's recommendation to include all projects, not just advertising projects. Unless the Auditor responds otherwise, we will continue this interpretation.

Implementation of Recommendation #5

Recommendation #5 has been implemented. An annual report will be produced July 20, 1984.



Director, Department of Commerce



Date

